
READJUSTING EU AGRICULTURAL POLICY

Towards an environmentally and developmentally
compatible agricultural policy allowing family farms a future

**Position Paper by
development, animal welfare, farming, environmental and
consumer protection organizations in Germany**

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Contact:

**Arbeitsgemeinschaft bäuerliche
Landwirtschaft e.V. (AbL)**

Bahnhofstraße 31
59065 Hamm
Tel.: ++49 (0)2381-905317-0
Fax: ++49 (0)2381-492221

Web: <http://www.abl-ev.de>
E-mail: info@abl-ev.de

Germanwatch e.V.

Office Berlin
Voßstr. 1
D-10117 Berlin
Tel.: ++49 (0)30/288 8356-0, Fax: -1

Web: <http://www.germanwatch.org>
E-mail: info@germanwatch.org

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1. The objective of this position paper

There will be no more reforms of the European Union's (EU) Common Agricultural Policy (CAP). This is the message influential European agricultural policy makers are sending – from EU Commissioner Mariann Fischer Boel and the current Chairman of the EU Agriculture and Fisheries Council and Austrian Agriculture Minister Josef Pröll to the Speakers of the major European Parliament parties. Large farmers' associations and other winners of EU agricultural policy signal their approval.

EU agricultural policy has far-reaching effects on the life and livelihood of people in North and South

The EU has just undertaken a thorough reform of sections of its agricultural policy. The results can easily be summarized:

- Those who profit most from the 40 billion euros earmarked for European agricultural policy are those who profited most before the reform. Direct farm payments are now independent from production, but the EU refrained from binding these payments to effective social or environmental criteria.
- These payments, with their insufficient criteria, should, according to the latest EU budgetary decisions, remain stable until the year 2013¹.
- Considerable budget cuts - EU wide over 20 percent and in Germany up to 47 percent – have been made, particularly in, of all places, the support of rural development. Cuts were made in the support of good agricultural practice and in the support of measures for the social good such as agri-environmental measures. The scarce funds available are now to be concentrated in capital investment. This translates into rationalization and large enterprises growing even larger.
- From a development perspective, this means that the trade distorting effects of agricultural aid (dumping) are actively supported.

EU declarations that trade distorting measures will be dismantled and that the current World Trade Organization (WTO) negotiations are to be a 'developmental round' are in direct contradiction to current EU agricultural policy. The coming years threaten to become a development round for agri-business, rather than a balancing of the interests of developing and industrial countries or of the European public and the agricultural industry.

The signatories of this position paper, farming, development, environmental, animal welfare and consumer protection organizations from Germany, all want to focus public awareness on these issues. We also want to start a German and European debate on the readjustment of European agricultural policy. Agricultural policy has far-reaching effects on basic human existence in North and South. Agricultural policy is also partly responsible for the way in which many regions, in our country as well, will develop. That's why we want to turn the discussion on agricultural policy around - to a debate on the future of rural areas.

This shift of focus to rural areas means concentrating not only on agricultural policy in the North, but also on the situation in the countries of the South, for many problems and challenges today are of a global order. We must therefore find appropriate answers for the rural regions of the North and the South. To play them against each other, as is often done in current agricultural policy debates, is not to recognize the nature of the challenges which all rural areas face.

Rural areas have a central function in the production of food which is healthy, nutritious and diverse. Thus rural areas are indispensable for basic human existence, par-

¹ This Council decision is still being negotiated by Council and Parliament. However, no more than minor changes are expected

ticularly for the poor of the world. Rural areas play a key role in the fight against world hunger. Furthermore, rural areas provide a habitat for many animals and plants (biodiversity). Rural areas are important to almost all people, as either a living or a recreation area and they play a central role in securing water supplies.

The signatories have drafted this paper jointly, in order to rethink the many challenges for rural areas ahead from differing perspectives and thus open up our field of vision. Farming, development, environmental, animal welfare and consumer protection organizations all have different interests. Nevertheless, our common goal is stronger. This paper will hopefully help build new alliances – and strengthen existing ones – to bring about political change for the betterment of rural areas. We don't have detailed solutions for all the problems facing us, but we do have many ideas for the readjustment of agricultural policy now and in the years to come.

2. The global challenge for EU agricultural policy

The EU is a key stakeholder in the global agricultural market and in the WTO. It thus has a particular responsibility in the international arena. WTO discussion, however, due partly to EU negotiation leadership, focuses narrowly on the liberalization of agricultural markets and on an export oriented agriculture. Installing the necessary framework for sustainable rural development and support of local markets is rarely mentioned.

Increased agricultural exports can add to economic growth and larger incomes. However, only a couple of the most competitive countries participate in these exports, and from these countries only a minority of farmers. Particularly small enterprises are pushed aside, as they receive no protection against the fierce competition in the global market. They have neither the technical know-how nor the production technology necessary to keep pace with increasingly standardized global agricultural markets.

In most Southern countries, it is smallholder family farms which are increasingly marginalized. Half of all hungry people worldwide belong to farming families. They live in adverse conditions in remote areas, often geographically handicapped areas. These families receive no support from national agricultural programs. When this agricultural marginalization of family farmers coincides with a sudden opening of markets, with no local controls, the survival of many people in rural areas is at stake. Increased poverty and rural flight are the results.

This is the case although sound rural development is, in many countries, a precondition for general economic development. Only when the creation of local markets receives priority, thus supporting local production, will non-agricultural workplaces develop. The pressure to liberalize also leads more and more farms in Europe to either rationalize production, seek alternatives or give up the family farm altogether.

3. Agricultural policy development in Europe

The agricultural policy framework for European agriculture has changed in the past decades. New opportunities exist for supporting an agriculture compatible with environmental, social and development objectives. Opportunities that are blocked by the continuing belief in international competitiveness and the retreat of the State in the regulation of agricultural markets.

Agriculture in Europe was, for decades, characterized by a system of state intervention in market and pricing policies and the support of increased productivity. In some areas of production, this led to surpluses which were and are then sold on the global

Rural areas provide the basis of human existence, particularly for the poor of the world

Despite decoupling direct payments from production, EU subsidies lead to a policy of dumping.

market. This makes little to no sense, as Europe is one of the largest importers of foodstuffs and feed. In 1992 the MacSharry reform, named after the Commissioner of Agriculture at the time, Ray MacSharry, led to the first change in this system. The “Agenda 2000” of 1999, marks the true beginning of the step by step departure from the old market and pricing policy and its replacement by the introduction of, partly decoupled, direct farm payments.

As part of the last agricultural reform, the Luxembourg Resolutions of 2003, - currently being implemented in the EU Member States - the receipt of direct payments was for the first time formally bound to the observance of environmental, animal welfare and food quality regulations. Nevertheless, EU agricultural policy continues to favor growth oriented, “innovative”, technological objectives, following the so-called Lisbon Strategy of the EU.

According to the WTO Agreement on Agriculture, the EU must step by step substantially reduce trade distorting and protectionist measures. The Luxembourg Resolutions of 2003 reflect this formal multilateral commitment. In them, the European Union subsidy system is adapted to the anticipated requirements of the WTO agricultural negotiations.

4. The reformed EU agricultural policy – advance or setback?

The departure from the old system of state intervention in the market and the begin of a new era in agricultural policy- that is, the passing of the Luxembourg Resolutions – is meant to reform the Common Agricultural Policy (CAP) so as to ensure environmental and trade interests and guarantee farmers income stability. An analysis and assessment of the present situation, however, shows that although significant progress has been made, many of the central problems of the CAP remain.

4.1. The development policy perspective

Despite the latest CAP reform and the concurrent decoupling of direct payments from production, the EU continues to facilitate dumping by means of its agricultural subsidies. The Luxembourg Resolutions allow export subsidies, which cause dumping, to remain in place. They also do not signal a willingness to fund the support of rural development in developing countries in order to at least compensate for damage incurred. From a development perspective, with the reform of the CAP almost no progress has been made. Even though decoupled direct payments no longer directly subsidize (export) products, in the short and medium term a rise in EU grain exports is nevertheless predicted. Smallholder family farmers in the South will thus still have to contend with subsidized cheap imports from the EU.

Even if the current resolutions of the WTO Minister Conference in Hong Kong are implemented and all export subsidies are completely dismantled by 2013, many EU internal subsidies still carry an indirect dumping potential. It is therefore necessary to reduce those subsidies which have such a potential and only maintain subsidies, or other agricultural support, in those areas in which no negative effect on developing countries is to be expected.

Looking at the second pillar of the CAP (rural development), the support of capital investments in particular is dubious from a development perspective. This support is meant to increase productivity, i.e. to produce larger amounts at lower prices. At the same time, agri-environmental measures supported by the CAP do little to make production in areas of intensive farming more ecological. The quantity of domestic production remains the same and thus also the sum of exports. This is exacerbated by

For family farmers in developing countries, the sudden opening of domestic markets provides a problem

the fact that the social and environmental measures of the second pillar of the CAP (which already only accounts for 10 to 20 percent of the EU agricultural budget) suffered drastic cut-backs at the EU summit in December 2005, at which the resolution on EU Financial Perspectives for 2007 – 2013 was made.

Particularly problematic for smallholder family farmers in Southern countries is opening domestic markets too fast and with no local regulatory measures. This is worsened by the mass practice of dumping by the EU and other industrial countries. The EU should therefore no longer demand the opening of agricultural markets in the South, but rather help uphold or expand existing options for protection.

The developing countries' demand for open markets in the North is to be categorically supported. Particularly trade barriers for processed agricultural products should be more effectively dismantled. At the same time, European Union Member States, like all countries, must be allowed to protect their markets so that the development and support of rural areas and a reasonable amount of protection for agricultural production is possible. Special attention must be paid that production not lead to surpluses that are then sold at dumping prices. Market access must be conditional upon conformity to environmental and humanitarian minimum standards - in the interest of smallholder family farmers and in the name of rural development in the South .

4.2. The environmental and consumer protection perspective

Ideally, environmental and consumer protection go hand in hand in the agricultural sector. The preservation of natural and cultural landscapes and biological diversity is not only necessary for environmental reasons, it's also of social value for the consumer. The sustainable production of healthy, nutritious and regional food, which guarantees the existence of all people, is of interest for reasons of both consumer and environmental protection. Binding agricultural subsidies to environmental, animal welfare and food quality regulations (so-called cross compliance), is, in its rudiment, an important positive innovation within the first pillar of the reformed CAP. However, this ruling is limited almost exclusively to compliance with existing regulations and is thus in its current form unsuited to the task of making agricultural policy more ecological or, for example, making a real contribution to an improved implementation of the polluter-pays-principle.

With the passing of the new EAFRD-Regulation (European Agricultural Fund for Rural Development) in September 2005, a further step towards the integration of conservation and agriculture was made. Particularly the second pillar axis "Improving the Environment and the Countryside" provides many opportunities for the support of agri-environmental schemes.

European Union Member States may choose from many models for the implementation of decoupled direct payments. The model of a regionally uniform area premium, offers the opportunity of correcting the former disadvantage of maintaining permanent pasture as opposed to cultivating arable land. This model will, however, be introduced in only a few EU States such as Germany – and here will only fully go into effect in 2013. In the first years of German implementation, the base premium for permanent pasture will be much lower than that for arable land. Extensive dairy farms profit most from a uniform premium for all types of land.

From a consumer and taxpayers perspective, the reformed CAP has not changed the lack of transparency in the allotment of direct payments and export subsidies. In light of the fact that over 40 billion euros of public money go to the agricultural and food industries, it is incomprehensible that consumers and taxpayers receive little to no information on who receives which funds. This makes an informed debate on the

Consumers and taxpayers receive no information about the utilization of EU agricultural subsidies

sense of or reasons for subsidies, their dissemination and specific objectives almost impossible.

In light of our endangered natural resources, and the significance of agriculture for human health, there is no justification for such a comprehensive subsidization of the agriculture and dietary industries without strictly binding subsidies to high environmental and food safety standards.

4.3. The farmer's perspective

Due to decoupling, direct farm payments no longer directly reward increased production. Nevertheless, the fact remains that direct payments still distort domestic competition to the detriment of smallholder family farms dedicated to the production of quality products with high environmental and animal welfare standards.

In Germany, 0.5 percent of all farms (1,807) each receive more than 300,000 euros annually in nonspecific direct farm payments. Taken together, this accounts for 20 percent of all direct payments from the EU to Germany. On the other end of the scale, 70 percent of all farms receive annual payments of up to 10,000 Euros (25 percent of all direct payments). After the reform, streamlined enterprises with large areas still receive payments of up to 120,000 euros per worker, while the average farm receives less than a tenth of that sum per worker. This is a significant domestic agricultural market distortion. It puts farms that produce quality products and attach value to ecology and animal welfare, necessitating more labor intensive methods, at a disadvantage. In the global market, this subsidy system reinforces the dumping effect of German exports, to the detriment of smallholder family farms in developing countries. The direct farm payment lacks a social criteria for the factor employment (agriculture enterprises as employers).

The German government's Agricultural Report 2005 makes clear that many farms' livelihood would be threatened without income backing. The reason: the returns on agricultural products often don't cover the cost of production. Bringing domestic prices closer to global market prices greatly endangers the livelihood of family farmers.

This development leads to an intensification of production at advantageous locations and a simultaneous abandonment of less productive areas. This will have negative effects not only on rural employment, but also on local and regional economic development and on biological diversity.

The EAFRD Regulation mentioned above offers, in principle, the possibility of supporting added value in the area of high quality production, thus making an important contribution to the support of rural areas. This would create more, and better qualified, jobs than the support of capital investments which encourage rationalization and growth.

The current farm payments distort domestic European competition

5. The guiding principle of developmental, social and environmental compatibility in EU agricultural policy

The signatory organizations advocate an about face in agricultural policy. We need a policy which benefits rural areas in the North and in the South. Every country should have the right to support and protect the production of food for domestic consumption, guaranteeing food sovereignty and a reasonable level of self-sufficiency. At the same time, current negative developments must be exposed. Subsidies can be an important instrument for steering agricultural policy towards compatibility with social, ecological and developmental objectives. The current distribution of funds, however, has too many negative consequences and damages the reputation of all agriculture in the public eye.

The EU focus on liberalization at the WTO negotiations in Hong Kong, - at the expense of smallholder family farms in the North and in the South - the dramatic loss of legitimacy suffered by the current agricultural policy and the massive weakening of the second pillar due to the EU Financial Perspective 2007-2013 all make a change of course absolutely necessary. New and higher standards must be set. The signatories demand that the German government bring the following demands into the political process.

An about face is necessary – towards a policy which actively supports rural areas in the North and in the South

5.1. Europe's responsibility in the global market

The European Union must take a stand for an agricultural policy compatible with social, development and environmental objectives. We need an agricultural system in North and South which secures the future of smallholder family farms. The agricultural trade rules of the WTO play a considerable role in this mission. They provide the decisive framework for forming agricultural and nutrition policy. As one of the key decision makers at the WTO negotiations, the EU has the possibility of setting this framework so as to support ecological smallholder farm structures and make positive rural development possible in the North and in the South.

A change in the EU Commission's negotiation strategy is unavoidable if the following objectives are to be met:

- **The signatories demand the German government demonstrate a credible commitment to advocating the goals expressed below at the WTO negotiations on agriculture. A global framework for a fair, socially just and ecological trade in agricultural products must be set.**
- **The EU should improve market access and, simultaneously, advocate the concept of qualified market access within the agricultural negotiations. Guaranteed improved market access is particularly important for processed products and products whose production does not undermine but rather supports sustainable rural development in the South. The concept of qualified market access includes the mutual acceptance of the necessity of all countries being able to protect their rural areas and support both rural development and agricultural workers.**
- **The EU should offer sound support for the current proposals on the protection of developing countries' markets. Developing countries must be able to protect their markets on the principles of food sovereignty, protection of livelihood and the development of rural areas.**
- **The EU must end dumping without delay. To this end, it is, among other measures, absolutely necessary to immediately and substantially reduce**

Based on the criteria of food sovereignty, developing countries must be allowed to protect their agricultural markets

both the amount of direct export aid and the amount of exports subsidized, before this export aid finally ends completely in 2013.

- **The funds saved by ending exports subsidies should be invested in additional aid for rural development in the South (conversion).**

5.2. Restructure the subsidy system

The budget cut of more than 20 percent in the second pillar of the CAP marks a major deterioration in EU agricultural policy and amounts to a dismantling of quality improvement. This stands in direct opposition to environmental, social justice, family farmer, development and consumer interests.

The signatory organizations demand:

- **Rededicate funds earmarked for nonspecific direct payments to measures for rural economic development. According to the EU Financial Perspective for the years 2007-2013, Member States have the possibility of putting aside up to 20 percent of direct payment funds for investments in rural sustainability.**
- **Furthermore, no measures should be funded by the second pillar which only aid efficiency or increased productivity. The EAFRD must be changed to reflect this.**
- **Constraints on aid distribution are already allowed the Member States. These must be made obligatory EU-wide during the CAP Review of 2008/2009 at the latest. Payments should be made only to farms which demonstrably and concretely benefit the development of rural areas (job creation, environmental protection, animal welfare, protection of biodiversity). This particularly supports smallholder family farms and organic agriculture.**
- **Stop the dumping effect of decoupled direct payments by binding the payments to social (i.e. employment) and effective environmental criteria (change cross compliance regulations to this end). This can be implemented on a national level immediately.**
- **In the long term, the second pillar must be seen as the core of European agricultural policy and the second pillar principle of rewarding socially beneficial actions should become the guiding principle of all agricultural policy. The goal is a unified funding instrument and the dissolution of the current subvention system and its logic of pillars.**

The second pillar principle must become the leading principle for all agricultural policy

5.3. Transparency in funding

EU agricultural money is taxpayer's money. It is the public's right to be informed of the distribution of this money and its effectiveness. The EU and the individual Member States must therefore guarantee access to this information. This is also in the best interest of the recipients, as the taxpayer's acceptance of these costs can only be gained via open dialogue. In many European countries, including Denmark, Sweden, Great Britain, Ireland, the Netherlands, Spain and France the distribution of agricultural subsidies is made public. Germany is a straggler in this area.

- **The signatories demand obligatory public disclosure of the distribution of payments by the EU and its Member States. This must include, at the least, information on the size of the recipient farms or their manner of production.**

Transparency in the distribution of funds will lead to public acceptance

5.4. Standards and smallholder family farms

Minimum standards for food and foodstuffs are necessary for consumer protection. They ensure that the rising demand for quality products, particularly in the industrial countries, is met. In the face of increasingly opaque transnational processing and marketing structures, transparent minimum standards and quality control are a prerequisite for conscientious consumer decisions. Alongside national and international standards, processing companies and trade organizations often set private standards which lie above the legal minimum requirement.

Developing countries, and particularly smallholder family farmers within these countries, are often neither able to meet these standards nor to implement the requisite quality management systems. Industrial countries also often have (usually technical) requirements for industrial processes which present great challenges to artisan farmers.

From the perspective of developing countries, food standards often function as trade barriers. Due to these standards, they have no market access in industrial countries. Developing country participation in the development of these standards, e.g. the Codex Alimentarius, is minimal and standards set in developing countries are usually not accepted by the industrial countries. Due to the diversification of transnational companies and supermarket chains, private standards are being “exported” to developing countries. As a result, developing country farmers are also being thrust aside on their own domestic markets.

Therefore, consumer protection and the desire for quality must be reconciled with the concerns and needs of smallholder family farmers.

- **Standards set in the EU must be reviewed so that smallholder farmers do not disappear from the food industry’s value added chain and at the same time food safety is secured.**
- **Developing countries’ standards and instruments must be recognized internationally as long as the results guarantee food safety.**
- **If differences remain between the standards in developing countries and in the EU, the EU must aid smallholder family farmers in developing countries to adapt to the higher standards, providing financial and technical support. To this end, a fund should be established.**

Standards set in the EU should not shut out smallholder farms from value added chains

5.5. The right to access to natural resources

If rural development and the preservation of smallholder family farm structures in North and South are to have a chance, it is essential that all economic units in rural areas have access to basic resources.

- **Access to land and water (obstructed by concentration of property ownership) as well as access to seed (obstructed by intellectual property laws and terminator technology) must be overseen by anti-monopoly institutions, as it is in all other economic sectors, so that a monopoly of these resources in the hands of a few is not possible. The guideline for these institutions should be the principle of ‘Access to Resources’ as formulated in November 2004 by all FAO Member States in the Voluntary Guidelines to Support the Progressive Realization of the Right to Adequate Food.**

No monopoly of agricultural resources