

Current changes and future development of European Common Agricultural Policy (CAP) and German Agricultural Co-operatives

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1. Introduction¹

German farmers and German agricultural co-operatives have to cope with massive socio-economic and structural change at local level, new technologies promising advantages but also entailing risks, new tasks related to sustainable development, management of rural areas, food safety and protection of the environment. Change of local conditions is aggravated further by external influences like EU and WTO rules and the effects of boundless, globalised markets.

The topic of the Raiffeisen Economic Forum 2006 summarises the main influences to which German agricultural producers are exposed: “Policy and Markets”. In the annual general meeting of the national Raiffeisen Federation (Karlsruhe, 22 June 2006) this topic was interpreted to mean that “policy remains responsible for agricultural markets”.

It was emphasised that the state cannot withdraw in full speed from decades of market regulation. There have to be a reasonable transition period, appropriate instruments, reliable plans and no abrupt changes of framework conditions. A bad example of quick change is the grain market after EU enlargement which has brought about imbalances and the need to discuss changes of price regulations in order to avoid a sudden drop of grain prices.

Pressure on policy makers to change the rules comes from various sides: Scandals like the “Gammelfleisch” (meat unfit for human consumption) finding ways into sausages and canned food and dangers of diseases like mad cow disease and bird flue, which force politicians to come up with effective control mechanisms. But intensive controls also mean additional cost for the producer.

WTO and the Doha-Round try to agree on a global framework (Doha Development Agenda, DDA) in which CAP has to operate, the EU being the world’s second largest exporter of agricultural products and the largest importer of agricultural commodities from developing countries (DCs). WTO tries to design its policies and instruments in such a way that they are recognised at the global level as being sound and fair; the current round of WTO-negotiations, the DDA, is especially targeted to serve the developing countries.

In this paper, the topic will be dealt with in seven steps, starting from CAP and its current reforms and the present and future relations of CAP and WTO. The German agricultural co-operatives will be briefly described and the effects of CAP on these co-operatives will be discussed. The main part of the paper deals with challenges the German agricultural co-operatives have to face on the European single market and global markets. In this part, the analysis is based to a large extent on official statements of the German Raiffeisen Federation (DRV). Findings are summarised in a conclusion.

¹ The author is grateful to Ms Ines Tesch of the German Farmers’ Federation (DBV), Brussels office, for her advice on the final version of this paper.

2. EU Common Agricultural Policy (CAP)

CAP has to find solutions for problems caused by shrinking budgets for subsidies to be paid to individual farmers and the growing influence of world trade conditions on European agricultural production.

The benchmarks for important parts of the EU financial framework for the agricultural sector were already agreed upon in a summit meeting in October 2002. According to this agreement, the expenditure for the EU single market for the EU enlarged to 25 Member States over the period between 2007 and 2013 will remain unchanged (frozen) on the 2006 level. Matters yet to be decided are the approval of additional funds for measures of rural development and for the accession of Romania and Bulgaria.

Nevertheless, there were intensive negotiations in Brussels after the budget proposals of the EU Commission in summer 2004 concerning the future support of the 1. (market measures, direct payments) and 2. pillar (rural development) of the CAP. The negotiations ended up with a compromise which reduces the expenditure for both pillars (for the “old” EU-15).

From the DRV’s point of view, sufficient financial coverage of the budget for the agricultural sector is crucial. Without such coverage there will have to be budget cuts with regard to direct subventions and market regulation with dangerous effects.

For the Raiffeisen Co-operatives active in marketing and processing of agricultural products, measures aimed at increasing the value of agricultural primary products are of crucial importance. Initially, the Commission proposed a restriction of investment aids to small and micro enterprises. This approach was repeatedly criticised, because it fails to take account of the needs for structural change in the field of agricultural marketing. Criticism of this proposal by the DRV has had some success. The category of medium sized enterprises will continue to qualify for support (European Union and the WTO-Round, in: DRV Report 2004, p. 10).

3. Current changes of CAP

Besides the financial changes the way of organising agricultural support has changed, too. The so-called “Mid Term review” of the agricultural policy 2000-2006 in 2003 ended up with a substantial reform of the CAP. It was implemented in 2005, in some countries in 2006. Key issues of the reform of CAP are decoupling, i.e. separation of direct subventions from production, cross compliance (linking payments and production standards), reduction of direct payments and shifting money to the 2. pillar (modulation), measures for promoting the development of rural areas, and further reduction of market and price support measures on the agricultural market.

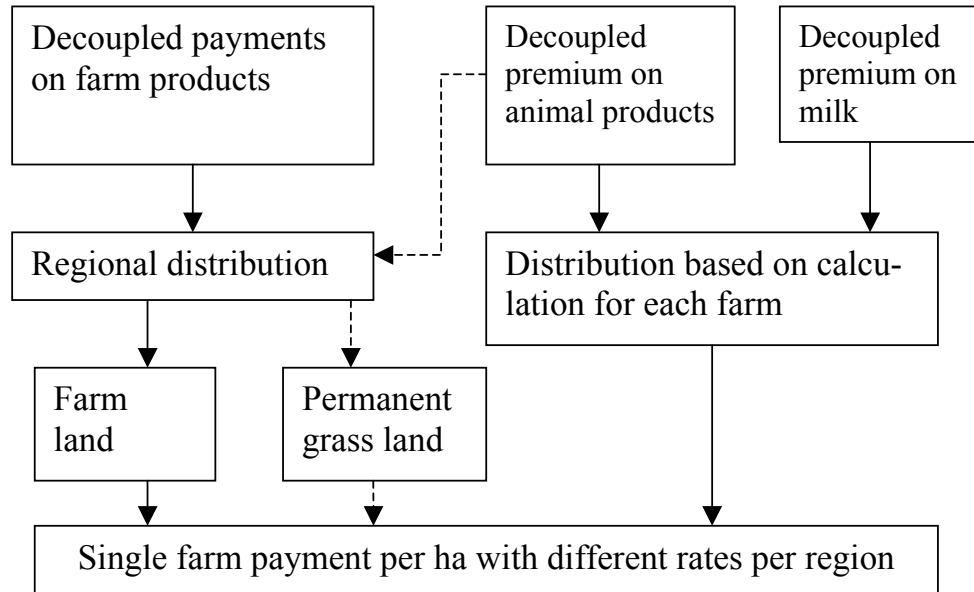
At the same time, the EU decision allows options and margins for the implementation of EU Regulations on national level. With its law on the implementation

of CAP, Germany has opted for a combi-model from 2005 (see figures 1 and 2). Between 2005 and 2013, direct payments shall be transformed gradually into region-based single farm payments per hectar.

Figure 1: CAP Reform: The German Combi-Model 2005

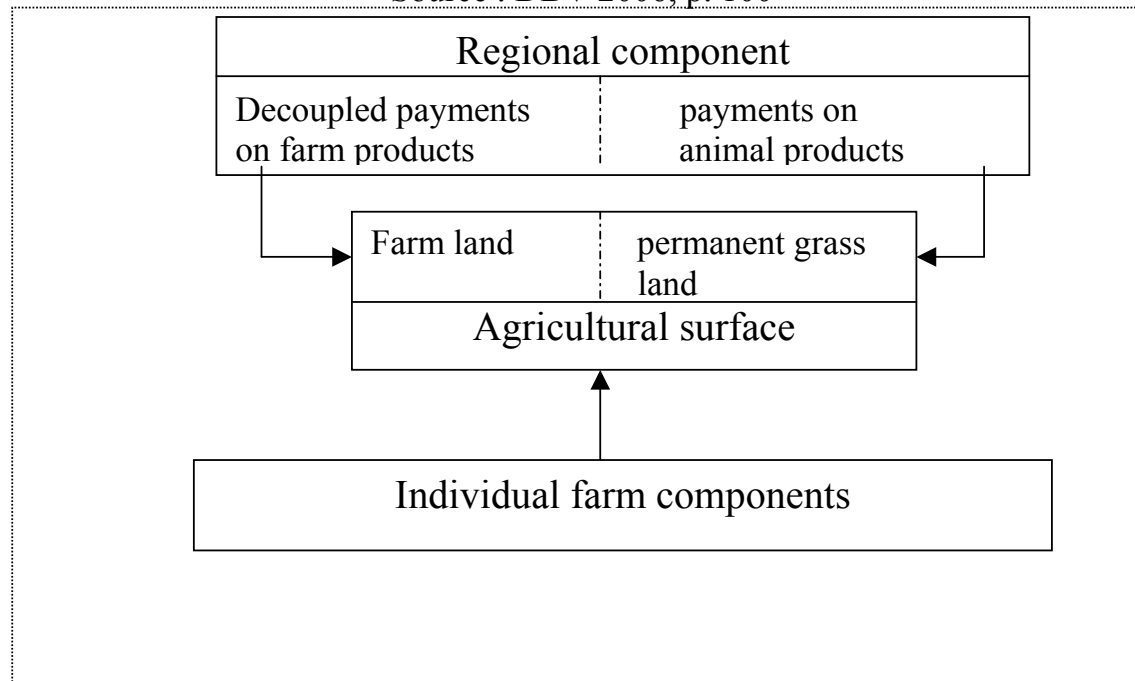
Source : DBV 2004, p. 173

Mix of farm premium and regional premium (simplified version)



The German Combi-Model 2005

Source : DBV 2006, p. 100



Elements of the German Combi-Model

Source : DBV 2004, p. 173

Regional components (regional average; approximately 79 € per ha for permanent grass land, approximately 301 € per ha for arable land) + individual farm components (top-ups).

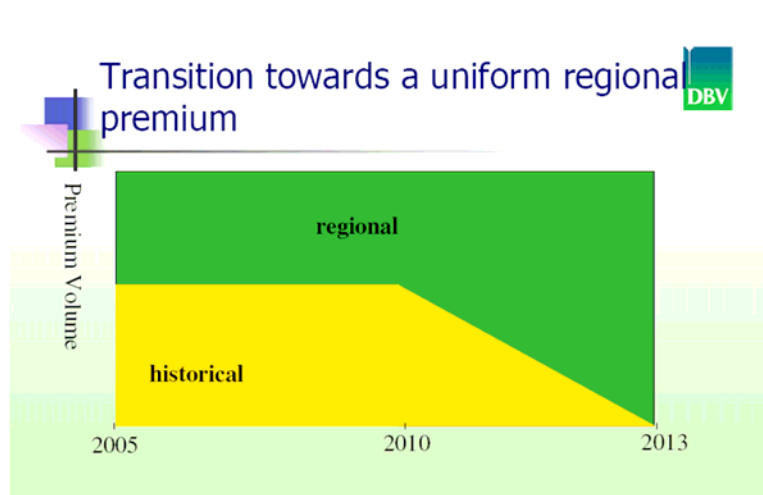
From 2010: adjustment of individual payments to the regional average payment.

By 2013: phasing out of individual top-ups.

During transition period: different payments due to individual top-ups per farm.

After 2013: uniform regional premium (Average approximately 328 € per ha)

Figure 2



The farmers and members of agricultural co-operatives are directly affected by this reform. However, this change of rules will also have far reaching effects on the economic environment of co-operatives.

By decoupling direct payments from production, the economic calculations of farmers with regard to the volume and structure of their production will change. Instead of fixed prices, the prices of their products will be left more and more to be determined by the market forces.

The co-operatives are called upon to adjust their strategies and plans once again to these new rules and instruments, the dimension and impact of which are still difficult to assess.

The current reforms of CAP can be summarised as follows:

Change of approach

Change from top-down policy implementation to market orientation, expecting farmers and their organisations to demonstrate entrepreneurial skills to survive in the market; withdrawal from market policy, but stronger interference regarding production standards (animal welfare, environmental issues and consumer protection issues).

In detail, that means for the

1. Pillar

- **End of the quota system**

Quotas like the milk quotas will be terminated. There are ongoing negotiations with the EU Commission to end the quota system in milk production in 2015.

From 2009 there will be a step by step reduction of direct payments to milk producers. The trend is towards farms with approximately 40 cows, down from today's figures showing that 44% of the farms have 500 cows or more (Genossenschaftskurier 2/2006, p. 32).

Milk farmers are caught between decreases of income due to low consumer prices and increased prices for animal feed and labour. They have to search for modes of sustainable milk production. Most dairy farms operate in the form of legal bodies (limited companies) and with professional management.

- **Decoupling**

The main point of the reform of CAP agreed in June 2003 is a decoupling (separation) of direct subsidies from production. In future these subsidies will be classified as belonging to the "green box" instead of the "blue box" (see infra pp. 6-7). This will lead to considerable reduction of trade-distorting subsidies. In the past several years, far reaching reforms of agricultural policy were achieved. McSharry Reform 1992, Agenda 2000 and the CAP Reform of 2003 had the effect of reducing EU trade-distorting support for agriculture and of opening its boundaries for the world agricultural market (while in the USA, subsidies increased). The EU will continue its preference for products coming from within the EU and places emphasis on maintaining the "peace clause" allowing to continue support of agriculture under existing WTO rules. For the EU as the second largest exporter of agricultural products, secured access to foreign markets is very important, but also is securing a "multi-functional" agriculture in the EU which meets standards that imports often do not. (DBV 2004, 229).

- **Adjusted production**

Over a period of transition from regulated and guaranteed prices to market conditions there will be a step by step reduction of state aid and subsidies. The agreement on sugar production can serve as an example, which is meant

to ensure a long-term sustainable future for sugar production in the EU by enhancing competitiveness and market orientation. There will be a 36 percent cut in the guaranteed minimum sugar price with compensation of farmers for losses and with incentives for uncompetitive sugar producers to leave the industry. There will be no more intervention, instead private storage will be introduced. The aim is to reduce annual EU production of sugar by 6-7 million t (i.e. reduction of about 15 percent with the help of the restructuring fund, cf. DBV 2006, p. 113) and to open EU markets for import of sugar from Least Developed Countries (LDCs) from 2009. This will allow to balance sugar production in the EU without creating new stocks of sugar. These are tough measures but without alternative.

- **Cross compliance**

Cross Compliance means linking direct payments to compliance with (mostly already existing) standards of environment protection, food safety and animal welfare. In addition, the land has to be kept in good agricultural and ecological condition. All this is laid down in 19 EU Regulations. A producer qualifying for the single farm payment has to implement the obligations of cross compliance in all branches of activity, even in those for which no payments are made (DBV 2006, pp. 111, 112). Paper work connected with this new approach (additional requirements regarding record keeping, accounting and reporting) are labour and cost intensive and constitute an additional burden on farmers.

- **Modulation**

Modulation means that funds saved in direct payments to individual farmers will be used to increase the second pillar, i.e. the promotion of sustainable rural development. Each percent of modulation means that farms have to accept a reduction of their direct payments (by 50 million €). From 2007, 5 percent reduction means reduction of direct payments by 250 million € with parts of these funds going back to farmers, partly for already existing and partly for new projects for the development of rural areas, but also used for non-agricultural projects and measures in rural areas. The so called “second pillar” supplements classical agricultural marketing policy and is co-financed by the EU (European Agricultural Development Fund Regulations 1698/2005) and Member States (DBV 2006, pp. 111, 185).

2. Pillar

- **Three plus one axes as key elements of the reformed Rural Development Policy**

The future Rural Development Policy 2007-2013 will focus on three areas in line with “three axes” of measures laid down in the new rural development regulation:

- Improving competitiveness for farming and forestry;
- Environment and countryside and
- Improving quality of life and diversification of the rural economy.

A fourth axis based on experience with the LEADER Programme introduces possibilities for locally rooted bottom-up approaches to rural development.

For each set of priorities, key actions are suggested. Member States shall prepare their national rural development strategy plans in the first half of 2006.

Box 1 The four axes of the reformed Rural Development Policy

Source: [http:// europa.eu/rapid/pressReleasesAction.do?reference=IP/05/766&format=HTML](http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/766&format=HTML) 09.07.2006

There are four main objectives of CAP

Axis one

Improvement of competitiveness of farming and forestry. (Minimum 10 percent of national expense).

Axis 2

Environment and countryside. (Minimum 25 percent of national expense)

Axis 3

Improvement of the quality of life and diversification of the rural economy. (Minimum 10 percent of national expense).

Axis 4

LEADER Approach, each programme must have a LEADER element for the implementation of bottom-up local development strategies of local groups (Minimum 5 percent of national expense).

- **Six community strategic guidelines to serve Rural Development**

The new Rural Development Policy proposes six community strategic guidelines:

1. Improving the competitiveness of the agricultural and forestry sectors;
2. Improving the environment and countryside;

3. Improving the quality of life in rural areas and encouraging diversification;
4. Building local capacity for employment and diversification;
5. Translating priorities into programmes;
6. Complementarity between Community Instruments.

They shall help to

- Identify the areas where the use of EU support for rural development creates the most value added at EU level;
- make the link with the main EU priorities (Lisbon – creation of jobs in rural areas and Göteborg – improve sustainability);
- ensure consistency with other EU policies, in particular cohesion and environment;
- accompany the implementation of the new market oriented CAP and the necessary restructuring, which it will entail in the old and new Member States.

Main features of the new EU rural development policy

The main features of the new EU rural development policy are:

- One funding and programming instrument,
- New strategic approach to rural development,
- Reinforced control,
- Strengthened bottom-up approach giving local action groups more say in tuning the programmes to local needs.

4. The Future of CAP and relations to WTO

The positions of the EU in WTO negotiations on agriculture are the following:

- More emphasis on market conditions and reduction of tariffs by an average of 46 percent while reducing the highest tariffs the most.
- Phasing out of export subsidies until 2013, parallel treatment of the other forms of export support (food aid, export credit and state owned export firms).
- Internal support: reduction of “amber/yellow box” measures (these measures are perceived as distorting trade and have to be discontinued, e.g. guaranteed minimum prices under market regulations).

- Protection of geographical indications extended to more products (e.g. wines and alcohols).

Box 2 The WTO System of Coloured Boxes:

Source: DBV 2006, p. 129.

Green box = permitted without limitations

State aid not linked to production and without / with minimum trade distorting effect. Examples: Payments decoupled from production after reform of CAP in 2003 for compliance with obligations regarding protection of the environment, support of agricultural research...

Such state aid is not seen as an incentive for production or unfair trade conditions. There is no obligation to reduce such measures.

Blue box = permitted with restrictions

Direct payments linked to production (based on surface of farm land or number of animals), as long as they are limited – e.g. only for certain numbers of animals or certain surfaces and production volumes (for instance price stabilisation payments within the framework of EU Agricultural Reform Agenda 2000).

They have to be reduced because they contribute to internal support of production together with measures from the yellow box.

Yellow/amber box = to be phased out because distorting trade

Direct payments by the state linked to production, e.g. market price stabilisation, tariffs.

To bring the comprehensive negotiations in the Doha-Round forward, several compromises were e.g. in July 2004 (DBV 2004, 234).

- Reduction of tariffs: In addition to proposals made by the EU and USA, the obligation to implement a minimum reduction of tariffs for all agricultural products, according to a tiered formula
- Export support: Agreement to abolish all measures of export promotion within an agreed period.
- Internal support: Reduction of trade-distorting support according to a tiered formula, assessment of “green box” payments for their trade-distorting effects.

Although a framework according to this compromise in July 2004 was agreed in Geneva, the 6th Ministers’ Conference in Hong Kong in December 2005 failed to agree on concrete data.

It was not possible to reach agreement on a binding legal framework with fair conditions and a variety of mechanisms to guide the development of agricultural and trade planning in the Member States. On the most important issue, to open markets by reduction of tariffs, national governments hesitate to make concessions. The results of the Ministers' Conference in Hong Kong were not far reaching enough to allow progress in the Doha-Round. It also failed to give international recognition to the instruments of CAP of the EU, needed to avoid that parts of these instruments are called into question at the international level. Without an agreement in the WTO on a binding legal framework, the EU - as other countries - is at risk of being accused at the WTO and of being forced to change its agricultural policy unpredictably (example: Reform of the common market organization sugar was a result of a WTO judgement).

On the other hand, if there is a result in the WTO-negotiations, this will also have strong influence on the conditions for agricultural production in Europe; e.g. if it leads to more (cheap) imports in the EU which EU farmers have to compete with (although their production costs are much higher, mainly because the higher standards or more complicated regulations).

Intensive discussions in Geneva to agree on the modalities of a successful completion of the Doha-Round followed in the first half of 2006 after Hong Kong did not lead to a success. But these negotiations were suspended in July 2006, as WTO Secretary General Pascal Lamy could not see a chance any more to find a compromise between the most important negotiation partners (Brazil, India, USA, EU, Australia, Japan = G 6)

Recently (FAZ 12 July, 2006, p. 13) some progress was made in negotiations of WTO concerning regional trade agreements. Regional trade agreements have to be reported without delay to WTO and shall be vetted more carefully than hitherto. The aim is to avoid that opening markets by regional trade agreements will create a jungle of provisions and additional cost for exporters. Already now there are almost 250 regional trade agreements covering one half of the world trade. The new agreement, which will come into force provisionally for one year, provides that states planning to enter into regional trade agreements will have to inform WTO which will have to decide within not more than one year, whether the agreement is compatible with WTO rules. This mechanism of transparency is considered to be a break-through and it is hoped that it will have positive effects on agreements regarding other matters like agriculture.

DRV has emphasised repeatedly the importance of internationally recognised benchmarks. This includes the provision of sufficient protection of EU agricultural production against external influences, which is subject to stringent regulations causing high cost, as well as strict equal treatment in all forms of export subventions avoiding that European exports of agricultural products will be disadvantaged.

The basic reforms of CAP agreed in 2003 and the revision of content and financing of the CAP in 2008/09 will be continued as planned. Areas not yet included in these reforms (like wine, fruit and vegetables) will be dealt with in 2006.

In February 2006, the Agricultural Council adopted EU strategic guidelines for rural development (already mentioned earlier in this paper), with a range of options which Member States could use for their national rural development programmes to be finalised in the first half of 2006.

There are drastic changes of the way in which the CAP will be financed from 2007 onwards. The existing different regulations will be brought together under one single regulation with stronger budgetary discipline. There will be two funds applying the same rules, the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). This will make funding more transparent, more manageable and more efficient. There will also be one single programming, managing and control system. The new regulation will be applicable from 1 January 2007 for the period of 2007-2013 and possibly beyond that date.

In order to be able to adjust, the agricultural sector needs reliable plans. Before embarking on new approaches for further reform, the results of the current reforms at local and regional levels should be studied. (Source: *Genossenschaftskurier* 2/2006, p. 34).

Non-trade concerns

The EU places great emphasis on inclusion of non-trade related aims into WTO negotiations. The EU holds the view that agriculture has special features which should be taken into consideration when setting up WTO rules. Agriculture does not only produce food and regenerative raw materials. Society expects agriculture to manage rural areas (covering 90 percent of the territory of the enlarged EU), to protect the soil, water resources and the air. Rural areas are more than just a location for production. Rural areas are the basis and the environment for recreation, housing and bio-diversity. The EU model of a multifunctional and competitive agriculture is an answer to the public concern about the effects of globalisation on the environment, health, social standards and cultural diversity. However, without an international framework for the protection of the environment and of bio-diversity, the EU goals may be difficult to achieve.

Beside the problem of continuing EU agricultural policy in the international context, there are also difficulties in implementing this policy within the EU. When converting EU Regulations into national law, some countries apply the EU regulations 1 to 1. In others countries (like Germany), politicians are tempted to invent additional conditions and requirements, in order to justify the fund originally created to balance incomes and expenditure of CAP.

The question is whether agricultural producers can hope to work with reduced regulatory and control mechanisms or whether there will be an increase of bureaucratic rules.

The aims of EU in negotiations with WTO not related to trade are:

- Contribution of agriculture to sustainable development,
- Securing proper management of the rural areas,
- Protection of the environment,
- Food safety,
- Food quality and consumer information,
- Animal welfare.

5. German agricultural co-operatives

German agricultural co-operatives are the most important link in the value chain of food industries and the fourth largest branch of the German economy (Nüssel 2005 pp. 26, 27). In the EU, agricultural co-operatives handle on average 50 per cent of supply and marketing of food staffs.

Co-operatives have to adjust themselves to changing framework conditions. As a result of WTO negotiations, there is a steady withdrawal of the state from market control together with an increasing liberalisation of international trade of agricultural products. This has resulted in increased competition on the markets and prices have become more volatile.

In the economic environment of boundless global markets, farmers need reliable and strong partners along the value chain. There is a growing influence of world trade conditions but also of internal restrictions, e.g. restrictions by more stringent rules on the use of fertiliser, pesticides and water, being obstacles in the way of increased production (Genossenschaftskurier 2/2006, p. 32). Ways out of such pressure by external factors have intensified high quality production and/or niche production.

Over the past few decades, structural change in the rural areas, in agricultural production and in agricultural co-operatives due to demographic, economic, technological and political factors have been profound.

In 1971, 7 percent of the total (West) German population was engaged in agriculture, with about 100,000 persons leaving agricultural professions every year. Today the figure of persons engaged in agriculture is down to about 2 percent.

To survive in the market, agricultural producers depend increasingly on strong partners. This role is played by agricultural co-operatives being part of an integrated system of primary, secondary and apex organisations, reaching up to EU level (COGECA).

Objective criteria of change are larger surface per individual farm and reduced labour by increased mechanisation. The main subjective criterion of change is the growing importance of management skills. These changes are the result of growing exposure to market forces.

In 1971, 15,000 primary co-operatives with 4.9 million members were affiliated to the German Raiffeisen Federation (DRV), with 11 regional federations, 10 regional central banks and more than 100 secondary co-operatives and apex bodies. However, already at that time, less than one third of the members of Raiffeisen co-operatives were farmers. The majority of persons living in the rural areas had different professions.

In 2005 these figures are down to 3,448 primary agricultural co-operatives with 690,000 members and 24 secondary and apex bodies. Including the Raiffeisen-banks, the figure of members is 2.4 million (Nüssel, Manfred: Deutsche Genossenschaften 2005, pp. 14, 27)

Box 3 Number of agricultural co-operatives and turnover in 2004

Source DG Verlag: 2005, pp. 14, 46, 47.

Branch of co-operative activity	Number of co-operatives and secondary bodies	Turnover in 2004
Supply and marketing	418 + 249 co-operative banks with commodities + 7 secondary bodies	16.9 billion €
Milk/dairy	330 + 5 secondary bodies	9.6 billion €
Animal husbandry	103 + 4 secondary bodies	5,0 billion €
Fruit, vegetables and garden products	114	1.8 billion €
Wine growers' coops	232 + 3 secondary bodies	0.8 billion €
Agrarian coops (former collective farms)	1,038	1.9 billion €
Others, service coops etc.	964	1.8 billion €
Total	3,448 + 24 secondary bodies	36.813 billion €

Compared to the economic weight of co-operative banks: Their balance sheet total amounts to 576.7 billion € (DG Verlag 2005, p. 10).

Economic and social changes:

During the past several decades, agricultural producers running family farms had to turn into agricultural entrepreneurs operating with high-tech equipment and computers.

They had to change their mentality: Instead of reacting on policy decisions, which had to be implemented, they now have to react on market forces which require continuous upgrading of entrepreneurial skills.

The challenge is to find the right place in a value chain and to learn supply chain management from the farm to the shop or to the consumer (direct marketing).

The individual farmer has to strengthen his/her capacity to compete and to become more professional (e.g. choice of the right variety of rape-seed suitable for the production of bio-fuel, using not only of the seed but the entire plants). He/she has to abandon production which is no longer profitable and start to produce what can find a market at a good price. This may include the need to establish trade marks and to apply uniform software compatible with other systems.

He/she has to co-operate with partners (suppliers, clients) within two way communication and information systems. Agricultural co-operatives prove to be the appropriate institutional framework to serve as such reliable partner.

6. Impact of CAP on German agricultural co-operatives

Agricultural co-operatives serve their members as a bridge to the market, collecting, processing and marketing their products and offering services like access to the latest research results of farm science on new products and new brands, education, advice and audit.

EU Regulations allow national governments options and margins of discretion in the conversion of EU law in national laws. This is the reason for some variations from one country to another with regard to standards, conditions and procedures which result in policy-induced differences. As a result there is not always an equal level playing field. Such differences of implementation of the EU Agricultural Reform in the different EU Member States can constitute a serious handicap for the position of the German rural and agricultural economy in EU-wide competition.

While in Germany direct payments are completely separated from production, in other EU Members States coupling of payments and production is maintained at least in part in certain branches of production (e.g. beef). For German producers this has negative effects on the purchasing of raw materials by enterprises marketing agricultural products, especially in case of animal products and on regional level.

The large volume of regulations, decrees, circulars and guidelines makes it difficult if not impossible for the individual small and medium sized producer to know and understand all the rules to be complied with. In addition, new obliga-

tions regarding the keeping of records, reporting, collection of data and filling of forms increase the workload by paper work and require expert knowledge, so that co-operatives become (besides farmers unions and chambers) indispensable advisers and helpers in this growing bureaucratic process.

7. Challenges German Agricultural co-operatives have to face on the European single market and on global markets from the perspective of the German Raiffeisen Federation (DRV)

7 (a) Meeting demands of the market and opening new markets

To meet the challenges of global competition agricultural producers and their co-operatives have to cut cost, diversify their production, enter processing, create new trade marks representing guaranteed and reliable quality standards and labelling regional products. For instance German milk products are sold under special labels in Turkey just as Danish co-operative dairy products are sold in the Middle East.

The reform of the EU sugar market was already mentioned earlier as an example for restructuring of production to ensure long-term sustainable future sugar production in the EU by price cuts on the one hand and incentives to abandon a non-competitive sector for other, more competitive products on the other hand.

As buyers, farmers can use their combined strength for pooling demand and building up countervailing power against the concentration of suppliers. E.g. farmers purchasing their cars and farm machinery through the Raiffeisen Network can expect up to 29 percent discount (Raiffeisen Magazin, 2/2006, p. 9).

7 (b) Secure quality of production and consumer protection

In Germany, consumer protection has become a matter of serious concern. So much so that the name of the classical Ministry of Agriculture was changed into Federal Ministry of Food, Agriculture and Consumer Protection.

Effective controlling systems had to be devised to avoid scandals like selling tons of meat unfit for human consumption (Gammelfleisch) and contaminated grain and animal feed, and to fight threats like mad cow disease and bird flu.

The current policy of zero tolerance for animal components in animal feed creates problems of practical implementation. It is suggested to soften the standard to tolerate 1 percent and to prescribe strict measures to prevent health risks.

7 (c) Renewable energies

The case of bio-fuel can serve as a good example for production of alternative energy in agriculture. Encouraged by tax exemption of bio-fuel, a network of some 700 filling stations has developed in Germany. However, with a change of government, this tax exemption is about to be changed. From August 2006 only pure bio-fuel used in agriculture and forestry will remain tax exempt, while bio-

fuel added to conventional diesel will be subject to tax, starting from 0,10 to 0.15 € per liter to be increased step by step until it has reached the tax level of 0.45 € per liter charged for conventional diesel fuel (Raiffeisen Magazine 2/2006, p. 4). Experts believe that without tax-incentives there will be no chances for bio-fuel.

7 (d) Green gene-technology

There are heated discussions between advocates and opponents of green gene-technology, more in the EU than in the rest of the world and especially in Germany (DBV 2004, p. 238). This largely ideological debate leaves the consumer confused. Opinions range from total rejection to acceptance of what is common practice in other parts of the world.

In these discussions chances and risks are weighed against each other:

- **Chances** to increase the effectiveness of breeding, optimising conventional bio-technical procedures, development of environment-friendly and resource-saving methods of production, improvement of the quality of food.
- **Risks** regarding the uncontrolled spread of manipulated genes, negative effects on the eco-system, development of new, unknown material, spread of allergic reactions due to new or modified proteins, uncontrolled dissemination of resistant genes.

Whatever may be the outcome of such discussions, from the German Raiffeisen Federation's point of view, gene-technology is an important technology of the future. It must be available in Germany and in the EU in order to survive international competition (Nüssel 2005, p. 27), but it is at the same time crucial to secure that it is the choice of every farmer to use it or not and the choice of every consumer to consume GMOs or not.

In 2003, the Cartagena Protocol on biological safety was ratified by about 130 states, including the EU, excluding the USA. The aim of the Cartagena Protocol is to offer appropriate protection against the risks concerning bio-diversity and human health. The influence of the WTO on the legal framework of the EU regarding green gene-technology dates back to 2001 and 2003. However, the EU rules lack clarity and coordination between different provisions. There is need to harmonise the regulations governing production of gene-manipulated crops for purposes of research and for commercial use. DRV expects the Federal German Government to set clear rules for the co-existence of conventional agriculture and crops with modified genes. Claims of absolute security and zero risk are called unrealistic (Raiffeisentag, General Meeting of the Raiffeisen Federation 2006).

Despite all the debate, it will be necessary to find rules for the production of plants with modified genes for commercial use which take account of risks regarding human health and the environment, as already applied for the use of chemical fertilizers and pesticides. The main point to be regulated is the liability

of those producing gene-modified plants for damages caused on neighbouring fields, even without fault, and, where several persons are sued, their individual or joint and several liability. According to critics, liability should depend on fault or failure to work according to good agricultural practice.

The German law on green gene-technology in force since February 2005 needs a “constructive” revision of rules on production of organisms with modified genes. However, before agreeing on the salient points of a revised law, it would be appropriate to wait for a judgement of the German Federal Constitutional Court on a case brought forward by the Land Sachsen-Anhalt, claiming that the law infringes basic rights of free exercise of the profession and protection of private property (Härtel 2006, p. N2).

7 (e) Bureaucracy

Agricultural producers and agricultural co-operatives have to deal with a growing volume of paper work, consuming both time and money and complicating work.

Bureaucratic restrictions are due to more and more stringent regulations on the use of fertilizer, pesticides, green gene-technologies and water, limits set for production and additional tasks (cross-compliance) like sustainable rural development, protection of the environment, consumer safety and animal welfare.

Special government units for deregulation and reduction of bureaucracy have been formed at the Chancellors Office and in the Federal Ministry of Food, Agriculture and Consumer Protection. The goal to reduce bureaucracy has been set. Remains to be seen how this goal will be achieved in practice. The EU Commission continues to issue guidelines to national governments how to tell farmers what they have to do to comply with EU and national regulations. This may complicate matters further rather than making work more easy (Genossenschaftskurier 2/2006, p. 34).

One example for simplifying rules on state aid are provisions governing support for the start-up of producer groups, from degressive payments over a period of 5 years to one lump sum of up to 400,000 €. Another example is the demand to abolish the set-aside obligation, as the decoupled payments after the reform are not linked anymore to production.

7 (f) Legal framework

In Germany, the federal structure of the state leads to special problems with conversion of EU Regulations into national law. For instance, in case of cross-compliance, responsibility for protection of the environment is a regional and local subject, while commercial law and labour law are national subjects.

One problem of German agricultural producers is overregulation. Many issues are regulated in unnecessary detail. Laws, regulations for implementing the laws and guidelines how to interpret provisions written in heavy technical language create problems. Such guidelines would not be necessary, if the texts were short,

simple, clear, comprehensible and unequivocal. Instead of clear distribution of powers and tasks, there is often overlapping and government officers are given margins of discretion without having always the technical knowledge required for sound decisions. In a state with federal structures and some degree of decentralisation, matters are further complicated when each Land has its own texts and practices different from one Land to another.

In this domain, the government units for deregulation and reduction of bureaucracy formed at the German Chancellors Office and the Ministry of Food, Agriculture and Consumer Protection have a vast field of operation and could do a lot of good.

One good sign is that there will be less regulations on agriculture in the EU. In the important field of financial support, there will be only two EU Funds both operating under one single regulation.

8. Conclusion

WTO approaches to set the rules of markets for agricultural products proceed very slowly towards free access to markets and phasing out of trade-distorting state aid. CAP of the EU follows the same trend.

Regarding negotiations with the WTO, decoupling direct subventions from production also means that measures to support and stabilise agricultural markets in the EU will continue to loose importance.

Due to reforms of CAP in 1992 and 2000, the prices under EU market regulations dropped by 45 percent in case of cereals and 40 percent in case of beef (DBV 2004, p. 227).

In addition, the EU aims at including non-trade related objectives into WTO plans for agricultural policies.

In future, farmers will be paid by the EU and national governments for services rendered to society, such as protecting the environment, keeping rural areas habitable, caring for bio-diversity and animal welfare und making prudent use of natural resources to ensure sustainable development.

The key elements of the reformed CAP based on legal texts that where formally adopted at the Agriculture Council of September 2003 can be summarised as follows:

- A single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of production.
- This payment will be linked to the respect of environment, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition (cross-compliance).

- A strengthened rural development policy, new measures to promote the environment, quality and animal welfare and to help farmers to meet production standards starting 2005, but also supporting non-agricultural measures in rural areas.
- A reduction in direct payments (modulation) (for farms getting more than 5.000 Euro direct payments) to finance the new rural development policy.
- A mechanism for financial discipline to ensure that farm budgets fixed until 2013 is not overshot.

There are further revisions of the marketing policy of the EU, e.g. asymmetric price cuts in the milk sector, reduction of the monthly payments in the cereals sector by half while maintaining the current intervention price.

Agricultural co-operatives become more important for the individual agricultural producer in meeting the production standards and as a bridge to the market. To survive in the new environment, they have to increase their professionalism and entrepreneurial skills by continuous learning. On the other hand they are expected to act as guardians of sustainable rural development with all its components like protection of the environment, bio-diversity, animal welfare to mention only a few.

These tasks cannot be fulfilled by individual producers alone, but only in cooperation with other local and regional producers and stakeholders, working together in producer groups, co-operatives, networks and integrated systems.

All this shows that to meet the present and future challenges, working together in co-operatives is needed more than ever. With its LEADER Component, the reformed CAP encourages bottom-up development and the activities of local groups, including associations and new co-operatives of water users, alternative energy producers like bio-fuel producers and sellers, organisers of green tourism and service providers of all kinds.

In their strategies, structure and choice of instruments co-operatives will have to be prepared for a further reduction of support measures and a higher volatility (fluctuation) of prices.

The financial framework for the EU is (after long discussions) determined until 2013, but there will be a review in 2009, with possible changes before 2013.

The budget proposals in the EU budget were strongly criticised by the group of the 6 EU Member States being net contributors, with Germany among them, which called for a rigid limitation of EU spending. These demands will probably be brought up again when it comes to the financial discussion in 2009.

Liaison Office in Brussels

Agricultural policy is more and more decided at EU level. Since the end of the 1960s, the DRV maintains a liaison office in Brussels and keeps contact with European institutions and federations with a view to effective lobbying. The

DRV places special emphasis on regular meetings with members of the European Parliament for exchange of views on EU agricultural policy and legislation affecting the agricultural sector. Apart from interest representation, the presence of DRV in Brussels allows to inform the member-enterprises without delay on relevant developments on the EU scene. The DRV liaison office is working together with important German federations of agricultural producers in a joint office called “House of German Agriculture and Food Industries”.

Box 4 The Doha-Round should not be allowed to fail (Die Doha-Runde darf nicht scheitern) by Mrusek, Konrad, in: FAZ 19.07.2006, p. 1. Translated from German with abbreviations by Hans-H. Münkner

In the G-8 Meeting in St. Petersburg the Heads of State promised to end the talks on the Doha-Round quickly after 5 years of negotiations. Remains to be seen whether this promise will be kept. So far, WTO has failed to reach its objectives.

Up until now, the EU has offered to reduce tariffs on agricultural products by 39 percent. If this offer would be increased to 51 percent, the main beneficiaries would be the farmers in the USA and Brasilia. However, the EU is only prepared to offer more, if tariffs for industrial products will be reduced as well. America is only ready to reduce its state aid to farmers, if the chances to export their products to Europe are enhanced. There are still no concrete ideas how to proceed. Each government tries to avoid to disappoint its voters.

The Doha-Round runs out of time. The mandate of President George W. Bush to negotiate expires in 12 months. Originally, WTO wanted to agree on benchmarks for new rules by the end of July 2006. Now, this date has been postponed to August 2006 and may well be postponed further to autumn 2006.. If no compromise has been reached at that time, the Doha-Round will end without results. In such case, the only chance would be to extend the mandate of President Bush beyond Mid-2007, which the US Congress would only consider, if good results for the USA could be expected.

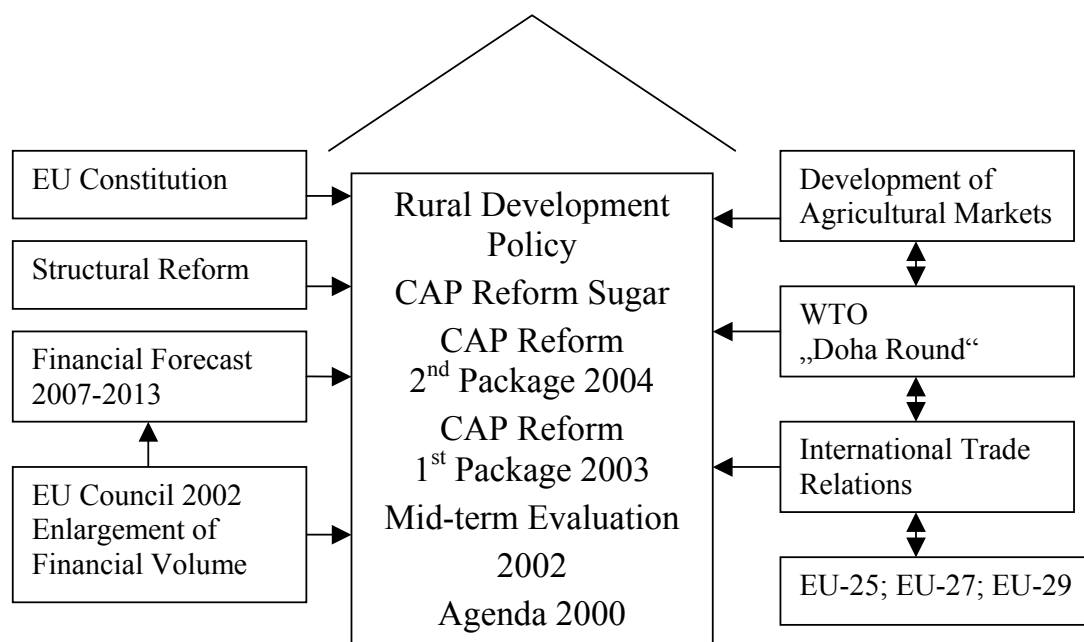
Failure of the Doha-Round would be the first time that attempts to liberalise trade by multilateral negotiations would fail. In this case, the multilateral system of rules would be replaced by a web of regional and bilateral trade agreements. This would be to the detriment of the poor countries, which would be more manipulated and discriminated.

But also the WTO would be damaged. The weakness of the WTO is that its 149 member states have to find a consensus. Within the WTO, the balance of power is changing with emerging new power centres (Brasilia, China, India, Mexico and South Africa, all represented in St. Petersburg). The strength of WTO is to have its own system of arbitration (Dispute Settlement Body, DSB) and sanctions, which have to be respected even by its powerful members. To succeed, all parties have to be prepared to compromise.

Figure 3 European Union Common Agricultural Policy (CAP) Development and Context

Source: Report of the German Raiffeisen Federation (DRV) 2004

Bonn 2005, p. 9



Box 5 Calendar of events

Date	Place	Event	Result
2000	Brussels	EU Council	Agenda 2000 - 2006
June 2000		Agreement with ACP States	Cotonou Agreement
Nov. 2001	Doha/Qatar	4 th WTO Ministers Conference	Doha Development Agenda (DDA)
August 2002	Johannesburg	World Summit	Sustainable Development
Oct. 2002	Brussels	EU Council	Agreement on expenditure 2007-2013
Dec. 2002	Nizza	EU Summit Meeting	Draft Constitution for EU-25

August 2003	Geneva	WTO	Negotiations on Agriculture, proposals EU and USA
Sept. 2003	Cancun	WTO Ministers Meeting	failure
Sept. 2003	Brussels	EU Council	CAP Reform Package 1 (decoupling, cross-compliance, modulation)
Dec. 2003	Geneva	5 th WTO Ministers Conference	New time table
July 2004	Geneva	WTO Meeting	DDA Framework agreement
July 2004	Brussels	EU Council	CAP Reform Package 2 (tobacco, olives, cotton, hops included in the reform)
July 2004	Brussels	EU Commission	Budget proposal for financing the EU 2007-2013 (incl. CAP)
Oct. 2005	Brussels	EU Commission	Offer of EU to WTO
Dec. 2005	Hong Kong	WTO Ministers Conference	failed
Dec. 2005	Brussels	EU Council	Financing of the EU 2007-2013
Feb. 2006	Brussels	EU Council	Strategic guidelines for rural development
July 2006	St. Petersburg	G-8 Meeting	Adjourned decision on Doha-Round
End of July 2006	Geneva	G-6 Meeting (Australia, Brazil, EU, USA, India, Japan)	WTO-Negotiations suspended indefinitely

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