



Opinion of the Federal Government on the Communication from the European Commission

"The CAP towards 2020"

I. Preliminary remarks

1. In the context of the consultations on the further development of the Common Agricultural Policy (CAP) after 2013, the European Commission submitted its Communication "*The CAP towards 2020 - Meeting the food, natural resources and territorial challenges of the future*" on 18 November 2010. In this Communication, the Commission picks up important points emanating from the consultations with the Member States, the European Parliament and civil society.
2. The Federal Government's position paper on the further development of the CAP after 2013 of 31 March 2010, covering *inter alia* the objectives for the Common Agricultural Policy as laid down in Article 39 of the Treaty on the Functioning of the European Union, continues to be the guiding principle and forms the basis for assessing future measures taken in the context of the CAP until 2020.

This opinion therefore refers to additional aspects or points which require closer examination in view of the course of discussions so far at national and European level.

3. The Federal Government shares the Commission's analysis on future challenges facing the CAP and the objectives derived from these challenges. These objectives are: viable food production, sustainable management of natural resources and sustainable development of rural areas. The CAP must be structured to be coherent with other European Union policy areas and the Millennium Development Goals. It also has to support agriculture in dealing with climate change and maintaining biodiversity, in improving water management and ensuring environmentally-friendly and welfare-conscious production.

Today, the EU is already the world's largest producer of food and beverages. More than 14 million companies are operating in the agricultural sector within the EU, providing jobs for approximately 9% of all employees. They manage approx. 47% of

the EU's total area. In addition, there are millions of employees in upstream and downstream agricultural economic sectors. Even though the share of agriculture, forestry and fishery in gross value added represents merely 0.8% in Germany, approx. 12% of the total workforce is employed in upstream and downstream agricultural sectors (agribusiness) contributing approximately 7% of gross value added in Germany.

In light of the above, the Federal Government believes that a sustainable, productive and competitive agricultural sector makes an important contribution towards the Europe 2020 strategy and towards meeting new political challenges such as climate change, security of food supply, energy and industrial raw materials, environment and biodiversity, health and demographic change in the EU. Measures at Community level aimed at meeting the objectives of the CAP create significant European value added.

II. General guidelines of the Federal Government for the CAP towards 2020

4. Germany is at the forefront of implementing the CAP reform of 2003 and 2004 by having started earlier and more quickly than other Member States to make its domestic agricultural sector fit for international competition and less dependent on market interventions. The Federal Government welcomes the fact that the Commission intends to continue resolutely along this path of market economy reforms and that it also intends to continue to meet environmental challenges in agricultural policy.

To meet these objectives, we need a CAP with a strong 1st pillar and a well financed 2nd pillar, both in the period up to 2013 and beyond.

Direct payments contribute not only to securing farm income and compensating for the socially desired higher standards, but also provide remuneration for agricultural services of public interest that are not rewarded by the market. The principle of having flat remuneration for public goods and services of agriculture through direct payments has proven its worth in general; further developments should focus on developing the quality of this system. Germany expects that the major progress it made in the course of agricultural reforms will be recognised in this respect.

5. The Federal Government's top priority is to limit expenditure under the next EU financial framework to a maximum of 1% of the EU's gross national income (in commitment appropriations). In particular with regard to the letter of the heads of state and government of Germany, France, the United Kingdom, the Netherlands and Finland to Commission President Barroso of 18 December 2010 on setting the EU budget in the new funding period starting 2014 and the consolidation

requirements of national budgets, all decisions with fiscal consequences must be assessed in the context of other EU policy areas, e.g. the Structural Funds, and must be considered in the context of the overall financial allocation of the EU budget.

This means that decisions with fiscal consequences in the context of the CAP can only be made once there is clarity about the future EU financial framework. A clear and reliable financial base for both pillars of the CAP will then have to be created for the years after 2013. Individual Member States must not be excessively burdened.

As a matter of principle, national ceilings for direct payments and support funds of the 2nd pillar should be based on the current distribution key. Any redistribution must only be conducted on a limited scale and must not cause abrupt changes.

Specific new elements mentioned by the Commission in its Communication, e.g. the greening component of direct payments, additional payments for less-favoured areas in the 1st pillar, the support scheme for small producers, risk management measures and the possibility of keeping limited coupled direct payments must not be brought forward as justification for redistributing funding between Member States.

6. The Federal Government believes that a drastic simplification and a reduction of the bureaucratic burden for farmers and administration are indispensable for shaping future measures of the CAP. The simplification must start with the basic concept of the CAP.

This means that the Commission's ideas as presented in the Communication regarding the introduction of new elements and the new delimitation of support measures of the 1st and 2nd pillar must be critically reviewed with respect to their impact, efficiency and distribution effects and also with respect to the associated administrative burden. The goals the measures are expected to achieve must be in proportion to the bureaucratic burden the measures entail.

Practicable control provisions with an appropriate cost-benefit ratio are urgently needed. Management and control systems that have proved to work well in the Member States must be rewarded. In this sense, requirements of control systems, particularly of the integrated administration and control system (IACS) or the cross-compliance provisions, must be reviewed. A stronger focus of requirements on the core areas of agriculture is needed in respect of the latter.

The Commission's proposals, in particular on making the CAP more ecologically orientated, will also have to be measured against the degree to which this would simplify the CAP.

III. Organisation of agricultural policy instruments in the CAP towards 2020

7. In the context of these general guidelines, the Federal Government's assessment of individual deliberations by the Commission as presented in its Communication "The CAP towards 2020" is as follows:

A. Future orientation of direct payments

8. An adequate income for agricultural holdings is based in particular on the sale of agricultural products and services. In addition to this, decoupled direct payments still make a substantial contribution to farmers' income. In Germany, they account on average for 40% of the income. In order to implement the goals and principles, we need decoupled direct payments that provide planning security.

The experiences learned from market crises in the EU are that decoupled direct payments help agricultural holdings survive extraordinary market situations.

9. The Federal Government supports the Commission in its objective to change the system of direct payments in Europe to decoupled and uniform national or regional payments through the granting of a basic decoupled direct payment. This is in line with the approach Germany chose for the implementation of the 2003 reform.

Moreover, a decision on a possible redistribution of direct payments among Member States can only be made once there is certainty about the future multi-annual financial framework. In any case, any redistribution must only be conducted on a limited scale and must be made gradually so as to avoid abrupt changes. What is more, such considerations must also include a redistribution of funds for the 2nd pillar.

10. The Federal Government shares the Commission's objective to focus more on environmental targets in the CAP. For this, measures should be developed which truly increase the CAP's environmental contribution in an efficient manner without increasing the overall system's administrative burden.
11. The Federal Government considers that additional payments for farmers in areas with specific natural constraints as envisaged by the Commission in the 1st pillar contradict the objective of a clear distinction between measures of the 1st and 2nd pillar. The Federal Government is in favour of keeping the support for less-favoured areas exclusively in the 2nd pillar and of keeping the current compensatory allowance in the 2nd pillar. Support of less-favoured areas should be optional for Member States and must not lead to redistributions of funding among Member States.

12. The Federal Government favours decoupling all direct payments in Europe. Against this backdrop, deliberations by the Commission on keeping limited coupled direct payments in specific production sectors are regarded with great scepticism as they lead to market distortions. Coupled direct payments should therefore be further reduced and only be able to be granted for a transitional period, if at all.
13. The Federal Government rejects the Commission's deliberations to limit direct payments for large holdings and to possibly qualify them based on the number of employees. All holdings regardless of their size can provide essential public goods. Linking direct payments to a criterion relating to salaried labour intensity contradicts the idea of competition and is rejected also in view of WTO requirements. Moreover, monitoring such a regulation would mean additional bureaucracy and contradict the objective of simplifying administration.
14. With its deliberations on aligning agricultural direct payments more closely to "active farmers", the Commission is picking up on criticism from the public debate. From the perspective of the Federal Government, it must be examined whether and in what way it is required and appropriate to adjust the current regulatory framework. These adjustments to the current provisions must in any case be appropriate, non-discriminatory, practicable and in conformity with WTO rules as regards administrative implementation.
15. The Commission's ideas on a specific support scheme for small producers require further explanation. The Federal Government supports approaches to simplify the administrative implementation of direct payments. However, it must still be clarified whether the envisaged regulation does not in fact increase the administrative burden. The fact that structures differ across Europe is another reason why such a regulation should be optional, if introduced at all. What is more, such a regulation must be in line with the objective of having a market-oriented and competitive agricultural sector which is compatible with the environment and nature, and it must also not impede the necessary structural change. The Federal Government rejects market distortions in favour of a specific group of agricultural producers and associated financial transfers among Member States. In addition, this regulation must not undermine food safety, environmental protection or animal welfare standards in the European internal market.
16. The Federal Government expressly shares the Commission's objective of simplifying cross-compliance rules.

The Commission's deliberations on expanding cross-compliance are not in line with this objective. We must instead develop targeted measures which truly increase the CAP's environmental contribution in an efficient manner without increasing the overall system's administrative burden.

The Commission's proposed examination of whether to include the Water Framework Directive in the catalogue of cross-compliance requirements must take account of the requirement of simplification.

B. Market instruments and risk management

17. The Federal Government supports having greater market orientation and competition in the EU's agricultural sector. Market instruments should only complement farmers' risk-hedging in extraordinary market situations, as farmers are by and large covered by decoupled direct payments. Constant interventions in the market are rejected.

Measures of quality policy, labelling of agricultural products and strengthening of agricultural producers in the food chain are of major importance owing to the increasing market orientation, also in international competition. However, these measures must not lead to market distortions and must be in line with WTO and internal market rules.

18. From the Federal Government's point of view, the current instruments provide an adequate safety net which should be reviewed for the purpose of simplification and to increase the efficiency of measures.
19. It is not necessary to extend intervention periods and it is not necessary to use private storage in any more product areas by the EU legislator.

From a German perspective and under the condition of overall agreement in the WTO negotiations, we should dispense with the export refunds instrument as well as with all other forms of trade-distorting export subsidies

20. The crisis clause for extraordinary market situations mentioned by the Commission should be subjected to a critical review with a particular focus on simplification and efficiency.
21. The sugar and isoglucose market was substantially reformed in 2005. The reform aimed in particular at
- providing the sugar sector with long-term prospects,
 - strengthening market orientation and

- striking a viable balance on the market in the context of the EU's international commitments in respect of developing countries and the WTO.

The implementation of this reform, which was closely linked to a comprehensive restructuring of the European sugar sector, lasted until 2010. The reform has been successful with respect to the objectives and will be in force until 2015.

A renewed further development of the reformed EU's sugar market policy should be reviewed against the backdrop of required planning stability for economic operators, sufficient security of supply, the possible impact on preferential sugar imports from developing countries and the development of the global sugar market before the reform expires in 2015. Negotiations on bilateral and multilateral trade agreements must be taken into consideration.

22. Risk management measures complementing market measures and the protection provided by direct payments, which the Commission now wants to assign to the 2nd pillar, raise a number of questions regarding their assignment, financing and content, as do the proposals on the greening component and the compensatory allowance. In any case, risk management measures must remain optional for Member States, stay within the limits of national ceilings that are still to be specified, be in conformity with WTO rules and not distort competition.

The Federal Government rejects additional income support, e.g. as an income stabilisation tool, to supplement the current instruments of direct payments and the safety net. This would distort competition and commit scarce funds.

C. Measures to promote rural development

23. In the context of increasingly liberalised markets, measures to promote the competitiveness of agriculture as part of the development of rural areas will continue to gain in significance in the future. An important aspect in this context is to strengthen agriculture's innovative potential. The 2nd pillar of the CAP must support and foster sustainable development of agricultural holdings in an efficient manner.

In addition, support measures must have a greater focus on honouring the contributions of the agricultural sector towards environmental, climate and nature conservation in order to adequately meet today's environmental challenges.

This requires planning certainty for Member States in the 2nd pillar. The same applies for future funding. The Federal Government acknowledges the Commission's desire to definitely avoid major abrupt changes.

24. The principle of co-financing of support measures of the 2nd pillar increases the joint responsibilities of Member States and regions in the concrete shaping of the policy. In this sense, it helps to use EU budgetary funds in a targeted manner. This principle has proven effective and should be continued. As regards national ceilings that are yet to be specified, Germany is open to the co-financing rates being differentiated in favour of the priorities of the Europe 2020 strategy.
25. The Federal Government shares the Commission's view that it is necessary to strengthen measures to increase the competitiveness of agriculture, to use resources sustainably and to balance rural development in order to manage the challenges ahead. By integrating the regions and stakeholders, the 2nd pillar provides regionally adapted and efficient approaches in this respect.

For instance, the compensatory allowance under the 2nd pillar provides a regionally specified instrument to compensate for specific natural disadvantages.

Supplementary or even competing payments for land in less-favoured areas under the 1st pillar are not required as they do not contribute in any significant way towards meeting the objectives.

26. A joint strategy for better coordination and harmonisation between the rules of the rural development fund and other European funds can help to bring better political results. However, it is indispensable that the independence of the individual funds and the flexibility of Member States should be maintained.
27. It is within this framework that targeted measures of rural development must be developed. The Federal Government welcomes the Commission's planned focus on the environment, climate change and innovation. The Federal Government believes that targeted support of environmental objectives in conformity with WTO rules can be better achieved through measures of the 2nd pillar for reasons of subsidiarity and due to their more long-term nature.

The possibility of making measures of the 2nd pillar flexible enables account to be taken of specific environmental conditions in the different regions of a Member State.

This approach should be expanded in the future development of the CAP. To this end, different options for providing a greater incentive to make use of specific agri-environmental measures under the 2nd pillar through targeted and simple instruments should be reviewed.

From the Federal Government's perspective, measures aimed at meeting these objectives, e.g. in respect of the Plant Protection Framework Directive, the Water Framework Directive and the support for Natura 2000 sites, should be carried out within the framework of support measures under the 2nd pillar. The services must be rewarded in a manner that is conducive to achieving the desired control effect.

Systems for monitoring and evaluating measures, including quantified objectives and indicators, must be goal-orientated, and pay due regard to their meaningfulness and administrative feasibility. They must be simplified, reduced to what is necessary and be established early on before the beginning of the support period to give Member States and regions a reliable basis for programme planning.

IV. Conclusion

The Federal Government will bring the positions stated under number I, II and III up for discussion in the current negotiations on the Communication of the European Commission of 18 November 2010.