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## Germany

### Agricultural Situation

### Luxembourg Reform Implementation Proposal

### 2004

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**Report Highlights:**

Germany's Federal Ministry for Consumer Protection, Food and Agriculture (BMVEL) presented its proposal for the implementation of the Luxembourg reform decisions into German law. BMVEL intends to start decoupling in 2005 and proposes to end with one common per hectare subsidy for each region by 2012. Germany also intends to reduce the differences between the individual regions' subsidies.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Berlin [GM1]  
[GM]

## German Implementation Proposal for the EU Luxembourg Reform

The Luxembourg CAP Reform provides a lot of flexibility to the implementing EU member states. This flexibility is especially great with respect to the decoupling programs for individual agricultural production sectors.

At the end of January 2004, the German Federal Ministry for Consumer Protection, Food and Agriculture (BMVEL) presented an EU reform implementation proposal to the German parliament. The BMVEL proposal will be intensively debated by all political levels of the German law development process, and possibly amended before it is finally approved and implemented. This process includes going through the Bundestag and Bundesrat. The law has to be finalized before August 1, 2004, otherwise the implementation model defaults to the EU standard farm based model.

The objective of BMVEL's proposal is to start implementation as early as possible, 2005 is proposed. Current imbalances in support payments between different crops (e.g. currently there are no subsidies for fodder crops versus high support for silage corn) are slated to be reduced. The decoupling model is intended to be simple and transparent and convey to the general public that the agricultural subsidies provided to the individual managing the land are compensation for societal benefits, such as land stewardship, provided by the land manager.

### Definitions

**Implementation Timetable:** The decoupling process is to start on January 1, 2005. The reform elements of cross compliance and modulation are to be implemented in 2005. The full implementation of a common single per hectare subsidy is scheduled to be achieved by 2012.

**Region:** In general, each individual German Land (state) will be considered a region. There may be exceptions, such as Brandenburg and Berlin being treated as one region. Also, the city-states of Hamburg and Bremen will be probably combined with their respective bordering land to form a region.

**Eligible Land:** All agricultural cropland and permanent pasture; excluding land used for permanent crops, such as hops, vineyards, fruit orchards and forestland, and cropland not used for agricultural purposes; will be eligible for decoupled area subsidy payments. Each such hectare represents a **subsidy right**.

**Eligible Farmer:** All farmers who received at least one of the subsidy payments (listed under **Extent of Decoupling**) during the reference period 2000 – 2002 and who are still active farmers in 2005 will be eligible for decoupled area subsidy payments. Also farmers who possess a farm-based production quota for milk on March 31, 2005, will be eligible.

**Extent of Decoupling by Item:** All product-related subsidies are to be decoupled as extensively as possible

Subsidies for	
Crop production – grains, oilseeds, protein crops	100%
Potato starch	40%
Seeds	100%
Cattle slaughter	100%
Mother cow	100%
Special premium for male cattle	100%
Dairy	100%

Sheep	100%
National compensation for non-intensive (low input) farming	100%
Dehydrated feeds	50%

Germany will not exercise the option to keep support for certain crops partially coupled.

**Subsidy Value to be Decoupled:** The total amount of money available for decoupling for Germany amounts to € 5.1 billion in 2005. It will increase to about € 5.4 billion in 2007 when the EU dairy market reform will be fully implemented. These amounts reflect the EU transfer payments to Germany during the reference period 2000-2002 plus the expected compensation payments resulting from the dairy market reform.

### German Decoupling Program

Germany will deviate from the EU standard model to calculate the value of a subsidy right (see **Eligible Land**).

Definition of Subsidy Groups: For the German model the received historic subsidies are sorted into three different groups:

**Regional Cropland Subsidies Base (RCSB):** All subsidy payments for arable crops, seeds, and 75% of the decoupled portion of the potato starch subsidy (which is 30 percent of the potato starch subsidy) will be totaled within each region to create a regional cropland subsidy calculation base for a **cropland** related subsidy right – **regional model**.

**Regional Grassland Subsidies Base (RGSB):** All slaughter premiums, national supplement subsidies for cattle, and 50% of the support for extensive cattle production will be totaled within a region to form the regional grassland subsidy calculation base for a **grassland** related subsidy right – **regional model**.

**Farm Level Subsidy Base (FLSB):** All dairy subsidies (existing on the target date March 31, 2005), mother cow subsidies, special subsidies for bulls, calf slaughter subsidies, mother sheep subsidies, and 50% of the support for extensive cattle production, the decoupled portion of the dehydrated fodder subsidy, and 25% of the decoupled portion of the potato starch subsidy (which is 10 percent of the potato starch subsidy payment) will be totaled to form the calculation base for the **farm based** portion of the value of the subsidy right – **farm model**.

### Subsidy Right Calculation Process

At the beginning of the decoupling process in 2005, German farmers will be entitled to receive at least two different types of **subsidy rights**; one is based on the **cropland** and the other is based on the permanent pasture (**grassland**) area. Farmers who have to set-aside cropland will receive a third entitlement for their set-aside obligation (see **Set-aside** section of this report). By the end of the decoupling phase-in period in 2012, the values of these three different subsidy rights will be harmonized. The value of the region-based cropland and the grassland subsidy rights will be increased (**topped-up**) by a **farm-level subsidy**-portion, which is different from farm to farm (see calculation formula below).

Following is the **calculation process** for the value of the subsidy rights, which represent one hectare of eligible farmland.

**A)** 35 percent (currently €1.8 billion) of the total German subsidy value of €5.1 billion will be redistributed among the German Laender (states) based on agricultural area. The €1.8 billion will be divided by the total eligible German agricultural area. The resulting figure will then be multiplied by the eligible agricultural area of each Land (state) to determine how much of this €1.8 billion subsidy a particular Land will receive. The effect of this redistribution process is that the current significant differences in subsidy payments between one German Land (state) and the others (e.g. average per hectare subsidy in Saarland amounted to €232 versus €378 paid to farmers in Schleswig-Holstein) will be partially balanced. The most extreme subsidy decreases under this process are estimated not to exceed €18 per hectare. Those regions with presently extremely low premium levels will gain noticeably. The BMVEL rationale for this inter-regional balancing of farm support is that farmers will receive government money for the societal services which they provide, such as land stewardship.

**B)** Calculation of the **farm-level** portion of the **value of a subsidy right**: The farm-level subsidies (see definition of subsidy groups, **FSLB**) will be totaled for each individual farm and then divided by the number of eligible hectares of the particular farm. We will refer to this as the individual farm related subsidy (**IFS**, see formula below).

**C)** Calculation of the **value of the regional subsidy rights**: The total subsidy values of farm-level subsidy rights (**FSLB** value) of a particular Land will be deducted from the total subsidy value allotted\* to this Land. The remaining amount is divided into two portions to provide allotments for the cropland and the grassland based subsidy rights. The value of these two allotments creates the ratio of cropland-based subsidies versus grassland-based subsidies granted to the farmers of the particular Land. Example: In the case of Bavaria the ratio of cropland versus grassland payment right value is 1:0.3 because the cropland payment right value amounts to €298/hectare and €88/hectare for grassland. The **RCS** individual Laender (states) have the option to alter the distribution ratio of cropland versus grassland subsidy allotments to the advantage of the grassland subsidy allotment by increasing the grassland ratio by up to 0.15, in the case of Bavaria to 1:0.45.

The allotted funds for the cropland subsidy right will be divided by the number of cropland hectares of the Land and represent the value of cropland rights of the particular Land (**RCSH**), same procedure for the grassland subsidy right (**RGSH**).

**D)** The total amount of payment claims per farm will be calculated as follows:

Individual farm-related subsidy per hectare	<b>IFS</b>
Regional cropland subsidy per hectare	<b>RCSH</b>
Regional grassland subsidy per hectare	<b>RGSH</b>
Individual farm cropland hectares	<b>CH</b>
Individual farm grassland hectares	<b>GH</b>

$$\text{Total Farm Subsidy} = (\text{RCSH} + \text{IFS}) \times \text{CH} + (\text{RGSH} + \text{IFS}) \times \text{GH}$$

Upon implementation of this decoupling scheme, a farmer can grow whatever crop he chooses without affecting his subsidy base. However, he is, with only few exceptions, not permitted to convert permanent grassland to cropland. The farmer may also choose to stop growing crops on his land. In this case he still has to fulfill the **cross-compliance** requirements for fallow land to be eligible for subsidy payment.

At the beginning of the implementation period in 2005, the average subsidies per hectare will differ significantly from farm to farm within a region because of the differences in the historical values of the subsidies paid for cropland versus grassland, and the subsidies used to calculate the farm-related portion of the value of the subsidy rights (IFS). During a transition period of eight years, Germany utilizes a combination of a farm based support scheme and a regional scheme, as described above. Starting in 2007, the within-region (farm to farm) differences of per hectare subsidies will gradually be reduced to zero by 2012. At the end of the decoupling process, there will be one single area subsidy per hectare, disregarding the initial differences for grassland and cropland and disregarding the historic livestock subsidy levels per farm (IFS).

#### German Phase-in Process of the Proposed Decoupling Scheme

	2005	2006	2007	2008	2009	2010	2011	2012
Difference between the Start Value (2005) versus the Target Value (2012), in %	100	100	90	80	70	55	30	0
Value of a Subsidy Right								
Example A	200	200	210	220	230	250	270	300
Example B	400	400	390	380	370	350	330	300

Example A, a farmer starts with an average subsidy right of EUR 200 per hectare of farmland  
 Example B, a farmer starts with an average subsidy right of EUR 400 per hectare of farmland

Explanation: The target values are the result of the total value of subsidy rights per region divided by the total number of eligible cropland and grassland hectares of this region. How to read this table: In the year 2006, 100% of the difference between the start value of the subsidy right versus the target value remains to be harmonized. In the year 2010, only 55% of the difference still remains to be harmonized. The above percentages only serve as a political proposal and most likely will be subject to change during the political negotiation process.

**Dairy Solution:** The proposed transition to a general regional subsidy model may result in significant subsidy / income losses for dairy farmers. A working group composed of representatives of the German Laender and the federal government will continue to discuss this issue to develop a solution, which will limit the potential income losses for dairy farmers.

**Trade of Subsidy Rights:** Subsidy rights can be traded with the land or without the land. (Example: A farmer who owns land without eligible subsidy rights wishes to purchase subsidy rights from another farmer who intends to give up farming but who does not want to sell his land. In addition, the subsidy right offering farmer does not want to manage his land according to the cross compliance regulations because he sold all his machinery. The subsidy right buying farmer is free to buy either grassland or cropland subsidy rights for his farmland.) The owner of subsidy rights can only claim the subsidy if he has matching land in agricultural use, for production or for set-aside. Renting of payment rights is only possible in combination with land rental. Grassland and cropland subsidy rights will be treated

equally and both areas can activate either subsidy right. The result is that subsidy payment will be fully decoupled from production.

**Set-aside:** At the beginning of the decoupling process in 2005, all farmers, except for the small producers, (defined by the EU small-producer regulation, a farm producing less than 92 tons of grains) will receive subsidy rights for set-aside areas and will have to set-aside a matching crop area. Since not all crop areas have been subject to the set-aside requirement (only grains, oilseeds and protein crops were the base for the set-aside requirement calculation (**SACH**) – potato, sugar beets, other row crops and vegetable areas were not subject to the set-aside requirement) during the reference period, the following region-wide formula will be applied to calculate the individual farmers set-aside requirement:

Cropland area of a farm (**CH**) multiplied by the set-aside percentage (5%), multiplied by the quotient of a region's total area entitled to support payment in 2000/02 (**SACH**) versus the total cropland area in the region (**RCH** – regional crop hectares).

**Set-aside requirement per farm = CH x 5% x SACH /RCH**

This implies that a farmer who operates land, which is currently not subject to a set-aside requirement, such as potato or beet production area, will have to idle land under the future support scheme according to the above described formula. Farmers will also be entitled to subsidy payments for set-aside land, which are equivalent to the regional cropland subsidy right value. The set-aside subsidy right will not be topped-up by the individual farm-related subsidy per hectare (IFS).

Since the set-aside subsidy rights can be traded in the same way as other subsidy rights, it is possible that entire farms may be idled. However, cross compliance requirements have to be fulfilled. The land has to remain in a condition that would allow the farmer to put this land back into agricultural operation.

Organic farms do not have to set-aside cropland.

**Cross Compliance:** Farmers are only eligible to receive subsidy payments if they comply with all the requirements of the existing eighteen EU regulations and directives covering environmental, food and feed safety, animal health and animal welfare issues. These requirements are not new. However, with this proposed system, non-compliance will be punishable by a reduction or complete loss of subsidy payments. The government will have more direct control to insure that the measures are applied. In addition, member states will have to draft regulations, which define practices to keep land in sound agricultural and ecological condition, such as soil protection requirements and minimum standards for idled land. Such regulations currently do not exist on the EU level.

**Modulation:** Since 2003, Germany has already been modulating two percent of the pillar one payments (direct income transfer payments and other production related subsidies) into pillar two (rural and regional development). Beginning in 2005, the modulation level will be increased to three percent, 2006 four percent and 2007 until 2012 five percent per year. For every farm, the first €5,000 of decoupled income support will be exempted from the modulation requirement.